

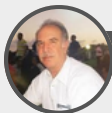
CUBA TRANSFORMACIÓN

EDITION 3

A SOCIAL MARKET ECONOMY REQUIRES DEMOCRATIC RULE OF LAW

This article argues that overcoming Cuba's structural crisis requires not only economic reforms, but also the construction of a social market economy within a democratic rule-of-law framework. The authors examine the historical failures of centralized planning in Cuba, highlighting how rigid state control, weak incentives, distorted markets, and the concentration of political and economic power have undermined productivity, innovation, institutional development, and individual freedoms.

The paper also outlines the principles and institutional foundations of a social market economy, emphasizing the role of private enterprise, competition, legal guarantees, and social equity alongside an effective and democratic state. In addition, it explores the political conditions necessary for a successful economic transition, arguing that sustainable reform in Cuba depends on democratic institutions capable of ensuring accountability, protecting rights, regulating markets, and fostering long-term development and social welfare.



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The structural nature of Cuba's economic crisis goes beyond failed economic policies and U.S. sanctions. At its core lies the persistence of a centrally planned model—one that history has repeatedly proven unworkable.

Cuba's experience proves that partial and slow reforms don't work. Excessive sequencing creates inertia and limits the supply-side response, making successful macroeconomic stabilization harder to achieve. This is why any economic transformation program must define, from the outset, a clear vision of the economic and political model that will guide its implementation.

We argue that Cuba needs to build the foundations of a social market economy under a democratic rule-of-law state, not only to overcome the current crisis but to recover a path of sustained growth that improves living standards.

ECONOMIC MODEL, KEY MECHANISMS, AND INTERTEMPORAL COHERENCE

An economic model is a simplified version of the real system through which a country organizes the production, distribution, and consumption of goods, services, and factors of production. Central planning has produced several persistent problems: systematic errors in resource allocation; rigidity in the face of technological change or shifts in demand; perverse incentives for state-owned enterprises that do not face competition, bankruptcy risk, or effective financial discipline; and price distortions that ignore market rules and generate shortages, low-quality output, queues, rationing, underground markets, and macroeconomic and intersectoral imbalances. In Cuba, these problems have become chronic.

Centralized economic administration, combined with a totalitarian political system, allows economic and political power to merge under a single authority. When society has no real choices, and when the state—controlled by a bureaucratic class—dominates the means of production, employment, prices, wages, resource allocation, and the distribution of goods, civil society loses its autonomy. This, in turn, favors the consolidation of authoritarian government, resulting in the absence of political pluralism, the impossibility of effective democratic oversight of government decisions, information censorship, the consolidation of a bureaucratic class that appropriates power, and the loss of independence among trade unions and social organizations.

For this reason, transforming Cuba toward a social market economy requires a broader political and institutional transformation that leads to the formation of a democratic state. A social market economy is based primarily on private property, though it does not exclude a role for public enterprise. It requires a strong institutional framework for regulation and policies that distribute the benefits of economic growth more equitably.

The institutional framework of this model rests on respect for and protection of private property, the defense of competition, market regulation to prevent behavior that undermines justice and equal opportunity, and clear rules for macroeconomic policy. In short: competition, economic growth, and social progress for all.

The social market economy rests on three essential premises. First, the market is an economic reality whose proper functioning requires coherent legal rules that enable exchange through market prices. These principles include economic freedom, private property, free competition, consumer protection, and limits on excessive state intervention. Second, markets can fail and therefore require correction through both self-regulation and state regulation. Third, the economy should be oriented toward social welfare rather than markets alone.

A competitive market must remain subordinated to the economy's central purpose: promoting collective well-being.

At least three essential functions are necessary for an economic system to be efficient and dynamic:

Economic calculation: the ability to assess costs, values, and scarcity in order to allocate resources efficiently. In market economies, prices—determined mainly by supply and demand—make this calculation easier.

Incentives: the motivations that lead individuals and firms to act productively, including work, investment, and risk-taking. Incentives may include material and moral rewards, as well as negative incentives that discourage fraud, tax evasion, and corruption.

Innovation: the capacity to promote technological advances, develop new products, improve processes, and adopt organizational structures that increase productivity and welfare.

These three functions are interconnected. Accurate calculation provides useful information for decision-making; incentives drive action based on that information; and when both mechanisms work properly, they encourage innovation, development, and adaptability.

Emergency measures and long-term strategies must be aligned to support the transition toward a social market economy. Controlling variables such as inflation, the exchange rate, and the fiscal deficit is essential for achieving macroeconomic stability and addressing urgent problems. However, stabilization should not obstruct structural reforms since these are what drive growth and sustain economic development.

THE POLITICAL REGIME FOR A TRANSITION TOWARD A SOCIAL MARKET ECONOMY

The political regime is crucial to the success of economic reform because it shapes the negotiation of distributive conflict, the credibility of reforms, and the creation of strong institutions. Reforms are not merely technical measures or public policies; they are also political processes that alter the distribution of resources, power, and opportunities in society. They change incentives and determine who wins and who loses. Ignoring the political context often leads to reform failure or instability.

Different political systems can support the transition from a centrally planned economy to a market economy. The cases of China and Vietnam show that a Communist Party can remain in power during this process. However, we believe that Cuba's evolution toward a social market economy should take place under a democratic rule-of-law state.

The Communist Parties of China and Vietnam led deep, strategically coherent economic reforms that produced sustained economic growth, greater international integration, and improvements in material well-being. These processes have lasted for several decades. However, they have not led to greater civil liberties or the establishment of democratic systems. As a result, there is no genuine social control over government management. This also means that, under the conditions prevailing in both countries, the reforms achieved so far could be reversed, especially if a conservative bloc or an autocratic leader consolidates political power.

In Cuba, the leadership chose late, partial, and often reversible economic measures within an institutional context marked by legal insecurity, weak guarantees, and restrictions on private property. The maintenance of state control prevents markets from functioning properly and blocks the efficient allocation of resources. The current generation of leaders has explicitly defined itself as one of “continuity.” It has preserved the extractive character of the institutions, and there is no reason to expect it to deliver the strategic change the country needs.

Choosing a democratic rule-of-law state for Cuba’s economic transformation also rejects the utilitarian argument that justifies the Chinese or Vietnamese models solely on the basis of their results.

Democracy matters not only because of the benefits it produces, but also because it is the most appropriate system for protecting individual freedom. When treated as an end in itself, and not merely as an instrument, democracy offers stronger protection for individual liberties than one-party regimes.

BY WAY OF SUMMARY

We believe that the appropriate model for Cuba’s transformation is a social market economy operating within a democratic rule-of-law state. Such a state must have the institutional capacity to act coherently, autonomously, and strategically to promote systemic development, correct market failures, and align resources with long-term national objectives, without allowing state intervention to become a source of inefficiency or to be captured by personal or group interests.

That democratic state must be able to design, implement, and oversee key economic policies; regulate factor markets; guarantee competition; establish antitrust rules; develop infrastructure; define the development strategy; and promote social development. Social policy, in particular, should focus on eradicating poverty and advancing human development.

The market, for its part, must play a decisive—though not exclusive—role in resource allocation and price formation, based predominantly on supply and demand, while leaving room for selective interventions.

Finally, it is crucial to recognize diverse forms of property and their equality before the law. It makes no sense to impose limits on the development of private or cooperative property, or to maintain discretionary mechanisms to decide which forms of ownership are authorized and which are not. Cuba needs more entrepreneurship and more entrepreneurs, operating under equal legal conditions and with equal access to markets.